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Strategy and integrated financial ratio performance measures: A longitudinal multi-country study of high performance companies

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Abstract

Purpose -This study investigates the links between strategy, execution, and financial performance with particular attention to the underlying performance drivers that describe how a company executes strategy to create financial value. Methodology -This study empirically investigates companies in the United States and 22 other countries over a 20-year period (11 successive 10n-year periods: 1988-2007): (1) to compare financial performance characteristics of HPC versus non-HPC; (2) to study the sustainability of performance in HPC; and (3) to identify the companies that exit or enter the HPC classification and the performance drivers and performance measures that characterized the change in HPC classification. Findings -The 20-year longitudinal results confirm the results of prior studies as to the long-term superior performance of HPC over other companies (Objective 1). For sustaining HPC, results were consistent as to total asset management, profitability, financial risk, and liquidity (Objective 2). Declining HPC companies fail at total asset management, profitability, and operating asset management and significantly increase their financial risk. Emerging HPC companies improve liquidity through improved operating asset management and cash flows (Objective 3). Practicalimplications -To become a HPC management must generate increased cash flows from income, manage receivables and inventory vigorously, and reduce its debt in relation to equity. Thereafter, manage- ment must concentrate on maintaining its asset turnover and growth in revenues while maintaining its profit margin and not increasing its debt to equity. Valueofthepaper -The results provide direction for management of companies that aspire to HPC status and to maintain HPC status.

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